Seventy-First

ANNUAL REPORT

Year Ended December 31

1965

CENTRAL OF GEORGIA RAILWAY COMPANY

BOARDS
mrh
G 652.0973
C 329N

CENTRAL OF GEORGIA RAILWAY COMPANY

Seventy-First

ANNUAL REPORT

1965

MAY 13 1968

PRINCIPAL OFFICE.....227 West Broad Street, Savannah, Ga. 31401

WASHINGTON OFFICE..920 Fifteenth Street, N.W., Washington, D. C. 20005

NEW YORK OFFICE.....70 Pine Street, New York, N. Y. 10005

STOCK TRANSFER AGENT.....Bankers Trust Company
16 Wall Street, New York, N. Y. 10015

REGISTRAR OF STOCK....Morgan Guaranty Trust Company of New York
30 West Broadway, New York, N. Y. 10015

ANNUAL MEETING OF STOCKHOLDERS

Last Friday in April, at Savannah, Georgia

Board of Directors

CENTRAL OF GEORGIA RAILWAY COMPANY

JAMES M. BARRY..... *Retired Chairman of the Executive Committee, The Southern Company, Birmingham, Ala.*

EARLE F. BIDEZ..... *Executive Vice President, Central of Georgia Railway Company, Savannah, Ga.*

WINTON M. BLOUNT..... *President, Blount Brothers Corp., Montgomery, Ala.*

FRANK E. BONE..... *Vice President, Amsted Industries, Inc., Milledgeville, Ga.*

*D. W. BROSNAN..... *Chairman of the Board and Chief Executive Officer, Central of Georgia Railway Company; President, Southern Railway Company, Washington, D.C.*

ERLE COCKE, SR..... *Retired Vice President-Staff, Central of Georgia Railway Company, Atlanta, Ga.*

*WILLIAM E. DILLARD..... *President, Central of Georgia Railway Company, Savannah, Ga.*

ROBERT W. GROVES..... *Chairman of the Board, Strachan Shipping Company, Savannah, Ga.*

CHARLES C. HERTWIG..... *Retired Chairman of the Board, Bibb Manufacturing Company, Macon, Ga.*

JULIAN T. HIGHTOWER..... *President, Thomaston Mills, Thomaston, Ga.*

THOMAS M. JOHNSON..... *President, Johnson, Lane, Space, Smith & Co., Inc., Savannah, Ga.*

*JOHN J. McDONOUGH..... *Retired Chairman of the Board, Georgia Power Company, Atlanta, Ga.*

JOHN B. MILLER..... *Vice President-Law, Central of Georgia Railway Company, Savannah, Ga.*

*WILLIAM H. MOORE..... *Vice President-Operations, Southern Railway Company, Washington, D.C.*

WALTER C. SCOTT..... *Vice President & Secretary, Savannah Sugar Refining Corp., Savannah, Ga.*

HUGH M. TARBUTTON..... *Vice President, Treasurer and Traffic Manager, Sandersville Railroad Company, Sandersville, Ga.*

RICHARD TIFT..... *Care of Richard Tift Company, Albany, Ga.*

ROBERT TRAIN..... *President, Bibb Manufacturing Company, Macon, Ga.*

MARTIN L. TRESSEL..... *Retired Vice President, Alcoa International, Inc., Pittsburgh, Pa.*

*D. ABBOTT TURNER..... *Chairman of the Board, Columbus Bank & Trust Company, Columbus, Ga.*

S. S. WILBANKS..... *Vice President-Assistant to the President, Southern Railway Company, Washington, D.C.*

* Member of Executive Committee

Officers

CENTRAL OF GEORGIA RAILWAY COMPANY

D. W. BROSNAN..... *Chairman of the Board and Chief Executive Officer, Washington, D.C.*

WILLIAM E. DILLARD..... *President, Savannah, Ga.*

EARLE F. BIDEZ..... *Executive Vice President, Savannah, Ga.*

H. W. WATERS..... *Vice President-Operations, Savannah, Ga.*

JOHN B. MILLER..... *Vice President-Law, Savannah, Ga.*

WILMER F. LEACH..... *Vice President-Sales, Washington, D.C.*

ROBERT S. HAMILTON..... *Vice President-Marketing and Research, Washington, D.C.*

ALLEN H. DOUGLAS..... *Vice President-Industrial Development, Atlanta, Ga.*

W. R. DIVINE..... *Comptroller, Washington, D.C.*

J. J. MAHER..... *Secretary, New York, N.Y.*

ROBERT H. SMITH..... *Treasurer, Washington, D.C.*

To the Stockholders of

CENTRAL OF GEORGIA RAILWAY COMPANY

Gross revenues of the Central of Georgia Railway Company during 1965 increased to an all-time high of $47,871,000, an increase of $2,849,000 over 1964. Despite the gratifying increase in gross revenues, the deficit in 1965 was $415,000, as compared with a deficit in 1964 of $46,000.

Although separation pay decreased by over $1,000,000 during the year, wage increases along with larger rail-laying and maintenance-of-way costs and larger tax accruals and smaller dividend income resulted in an increased deficit. There is still much to be done in the program of upgrading the railroad to the standards required by today's traffic. Work is progressing to the fullest extent possible within the funds available.

Net earnings and the continuing need to preserve cash prevented the payment of a dividend on the preferred stock with respect to the year 1965. Therefore, the previous maximum accumulation of $15.00 per share remains on the preferred stock. Southern Railway Company has recognized and understood the position of the minority stockholder in respect to holding securities on which there is no current return and for which there is limited market. Therefore, Southern has made an offer, expiring April 13, 1966, to purchase all or any part of the Central stock outstanding in the hands of the public on the basis of four shares of Southern 5% preferred stock, $20 par value, for each share of Central preferred, and two shares of Southern 5% preferred stock for each share of Central common.

Industrial development in the territory served by Central of Georgia continued to increase in 1965 with businessmen allocating more than $102,000,000 for new plants and warehouses or expansion of existing facilities during the year compared to about $76,000,000 in 1964. Indications are that this trend will continue in 1966.

It is disappointing that Congress has taken no steps toward passage of legislation to permit all common carriers freedom to set

minimum rates without regulation to haul agricultural and bulk commodities. However, the Interstate Commerce Commission, following the remand by the Supreme Court in January, 1965, in an order served September, 1965, gave final approval of the reduced rates on grain hauled in "Big John" cars. This concluded one of the longest rate disputes ever handled by the Interstate Commerce Commission. These rates were originally scheduled to be effective in August, 1961, and have been in effect since May, 1963. Under these rates ever-increasing amounts of grain have been moving into the South at low cost to the benefit of the consumer, the development of a fat-cattle industry, and the economy of the South.

The Directors and your management wish to express thanks to stockholders and employees for their loyalty, understanding and help, and to our customers for their business during 1965.

Sincerely,

D. W. Brosnan

Chairman of the Board

THE YEAR'S BUSINESS

Gross operating revenue was $47,871,000, an increase of $2,849,000, or 6.3%, compared to 1964. Freight revenue increased $2,823,000, or 6.8%, to $44,462,000. Revenue from passenger and mail traffic increased slightly, while express revenue declined by nearly $100,000.

During the year your Company paid approximately $1,075,000 in separation pay under the Interstate Commerce Commission order allowing Southern Railway Company stock control of Central as compared to $2,100,000 charged to expense in 1964.

Railway operating expenses together with the cost of hire of freight cars of other railroads needed to handle the Company's increased business were $46,966,000, an increase of $743,000, or 1.6%. Included in these expenses was an increase of $1,318,000 in maintenance-of-way and structures expense primarily as a result of the necessarily large rail program. In addition, non-operating income decreased 27.4% from $2,835,000 to $2,057,000. Estimated benefits to the Company for use of its tax loss in the Southern Railway System consolidated federal income tax return totaled $2,113,500 for 1965 compared with $3,712,000 for 1964, a decrease of $1,598,500 or 43.06%.

As a result of the foregoing, the Company's deficit for the year was $415,000 compared to a deficit of $46,000 in 1964, after all charges, including contingent interest.

CONTROL BY SOUTHERN RAILWAY

As of December 31, 1965, Southern Railway Company owned over 96% of the combined shares of Central of Georgia preferred and common stock pursuant to authority granted by the Interstate Commerce Commission when control was acquired. In view of the small number of shares which remained in the hands of the public, Central preferred and common stocks were removed from listing on the New York Stock Exchange effective September 11, 1963, in compliance with the rules of that Exchange, and since that date there has been no active market. Due to poor income results since 1960 there have been no dividends paid on Central stock since that time.

Southern has recognized the disadvantage to minority stockholders which results from holding a security on which there is no current return and for which no ready market exists. Consequently, on January 13, 1966, Southern made an offer to purchase all or any part of the Central stock still outstanding in the hands of the public on the basis of four shares of Southern 5% Preferred Stock ($20 par value) for each share of Central Preferred, and two shares of Southern 5% Preferred Stock for each share of Central Common. An expiration date of April 13, 1966, was set. Southern received a ruling from the Internal Revenue Service that this would be a tax-free exchange to the stockholders of Central who take advantage of this offer.

As of March 15, 1966, Central shareholders had tendered 7,664 shares of Central Preferred and 5,362 shares of Central Common under the terms of this offer, resulting in Southern having ownership of 98.16 per cent of Central Preferred and 99.30 per cent of Central Common.

In 1963 the labor organizations resorted to the courts in an effort to upset the conditions prescribed by the ICC for the protection of employees displaced or dismissed as a result of the acquisition of Central by Southern. On December 7, 1964, the United States Supreme Court determined that the ICC must again consider the labor conditions which it has prescribed insofar as the Commission had failed to state whether Sections 4, 5 and 9 of the Washington Job Protection Agreement had or had not been included in its protective conditions. Sections 4 and 5 concern notice to and negotiation with the labor organizations as to the employees to be used in the consolidated facilities. Section 9 relates to lump-sum settlements. The case is, therefore, again before the ICC for consideration on this narrow issue. A hearing before the ICC was scheduled for December 15, 1965, but was deferred pending ICC action on a petition for reconsideration by the labor organizations asking the ICC to make its ruling without further hearing.

IMPROVEMENTS IN THE PROPERTY

Central of Georgia continued its program of acquiring equipment to meet the increasing needs of its shippers. During the year the Company acquired new equipment consisting of fifty 100-ton lumber cars with 11-foot bulkheads, costing $835,000, and twenty-five 70-ton bulkhead flat cars for gypsum board service costing $427,000. In addition, the Company spent $1,070,000 for modernizing 125 steel box cars. The Savannah & Atlanta, a subsidiary of Central, acquired 11 new diesel locomotives costing approximately $2,362,000.

As of December 31, 1965, Central had on order 10 new diesel locomotives for delivery in 1966 and had contracted to rebuild to modern specifications the following cars:

559—50′6″ 50-ton steel box cars with steel lining, nailable steel floors, steel wheels and 10′ doors
300—40′6″ 50-ton pulpwood cars
300—40′6″ 4500-cu.-ft.-capacity woodchip cars
20—40′6″ 50-ton roof-hatch box cars
20—40′6″ 70-ton roof-hatch box cars

1199—Total cars

The Company laid 52.8 miles of new 115-pound welded rail and 50.4 miles of welded relay rail, making a total of 103.2 miles of welded rail laid in main tracks during the year. Track miles timbered and surfaced during the year were 713.3, and 250,766 new crossties were used in maintenance.

NEW MACON YARD

A new railroad marshaling and classification yard of the most modern design is being constructed at Macon, Georgia, with completion expected in May, 1966. The yard will serve Central of Georgia, Southern and Georgia Southern and Florida Railway. It incorporates the latest developments in automatic switching, retarder and other yard equipment, with closed circuit television for identifying cars, modern tube system for transmitting waybills, and a complete radio communications network.

This yard is capable of handling the longest freight trains now in use or anticipated in the foreseeable future, as well as facilities for servicing locomotives and making light running repairs to freight cars. It has an overall length of four miles, covers 360 acres, and includes 82 miles of track. The receiving yard holds 1,600 50-foot cars, the forwarding yard holds 1,650 cars, and the classification yard holds 2,500 cars.

The city of Macon is a principal traffic producing and handling point for Central of Georgia, Southern and Georgia Southern and Florida, and is a major central classification point for rail traffic moving over Central of Georgia. Operations at the new yard are coordinated with all Central of Georgia and Southern Railway System operations, including the modern Southern Railway Control and Coordination Center at Atlanta. Its operation will increase overall car utilization with accompanying improvement in service to customers, reduction in costs, and increased efficiency of operation.

The cost of this yard has been financed through sale to institutional investors of $11,000,000 of 20-year 5¼% Secured Notes of a Southern affiliate. These are secured by a lease of the yard to the using companies with rental payments to be allocated among those companies on the basis of usage.

INDUSTRIAL DEVELOPMENT

During the year, industries established or broke ground for 43 new and expanded industrial operations involving investment of $102,964,000 and expected to provide employment opportunities for 1,267 workers.

Highlighting the new plants being located on the railroad is Alabama Kraft Company at Mahrt, Alabama, about 10 miles south of Phenix City. This new company is a subsidiary of Georgia Kraft Corporation, which has existing plants on the Central at Macon and Rome. Georgia Kraft is an affiliate of Inland Container Corporation and The Mead Corporation.

J. M. Huber Corporation is establishing a new plant in the vicinity of Stapleton, Georgia, about 30 miles southwest of Augusta, to produce kaolin clay from extensive reserves. Principal product of the plant, planned for completion in late 1966, will be coating clay for the paper industry.

Formal opening of the Maremont Corporation's new automotive parts plant at Maremont (Roanoke), Alabama, was held on September 14. Alongside is a distribution warehouse to serve the Southeast.

Talley's Veneer & Crate Company located a new veneer plant at Waynesboro, Georgia, and Transco, Inc., is producing rail equipment in old shop property which is leased from the Central at Macon, Georgia.

Notable among distribution facilities established during the year are Diamond National Corporation's warehouse for the storage and distribution of matches and paper products; Inland Container Corporation, paper boxes; and Johnson & Johnson, pharmaceuticals and allied products—all located at Hapeville, Georgia.

Kimberly-Clark Corporation, Coosa River Newsprint Division, Coosa Pines, Alabama, has an expansion program under way which on completion, expected in early 1967, will more than double present capacity.

MICROWAVE COMMUNICATIONS SYSTEM

During the year a microwave communications system was completed along the lines of Central of Georgia between Macon and Savannah, between North Millen and Augusta, and between Bremen and Albany, Georgia, at a cost of $4,250,000. These lines are part of a 3,744-mile microwave communications system serving Southern Railway System and Central from Washington and Cincinnati on the north to Savannah, Jacksonville, Mobile and New Orleans on the south and tying into the Southern's new Control Center at Atlanta.

The microwave system provides the latest and most efficient type of communications available. It will afford substantial savings compared with the cost of the much more limited services provided through previous facilities, which were highly inadequate for modern-day operating and data transmitting needs. It will provide direct telephone distance dialing to all locations on the microwave system, including connection of telephone to the VHF radio system for communication with trains, stations, maintenance shops and marshaling yards of each of the using companies.

The microwave system is engineered to the highest standards and all engineering design criteria have been equalled or exceeded in actual field performance. The microwave system is an integral part of the computerized information control designed by Southern and affiliates to provide data for improved distribution and handling of cars and thereby materially to lower capital requirements for equipment. This data will provide continuous control of loaded car movements and afford opportunity for corrective measures where standards are not maintained, thus, through the control of quality, improving customer service. The microwave system is also designed to support the data processing for cost control, accounting, operating statistics, supervisory control of roadway and mechanical maintenance, as well as marketing, commodity and traffic research, and sales analysis and evaluation on a current basis.

The financing of the microwave system was arranged during the year by an affiliate of the Company through the sale to institutional investors of 15-year Secured Notes, Series C.

AGRI-BUSINESS DEVELOPMENT

With continuance of the low "Big John" grain transportation rates initiated by Southern assured by the final approval given these rates in September, 1965, by the Interstate Commerce Commission, expansion of the South's livestock industry gained new momentum. Also, the already large and important poultry industry of the South was greatly strengthened and benefited from the certainty that adequate supplies of feed grains could move on the lowered rail rates.

During 1965, an impressive number of new and enlarged agri-business developments occurred in territory served by the railway. Since low-cost grain hauled in "Big John" covered hopper cars first became available in May, 1963, 52 new or expanded cattle feed lots, 21 new or expanded hog feed lots, and 110 new or expanded feed mills and elevators serving both the livestock and the poultry industries have located in the territory served by Central of Georgia and Southern System.

As a result of the dramatic expansion of the livestock industry, plus increased movements of grain for the poultry industry, Central of Georgia and Southern shipments in "Big John" cars increased substantially in 1965 over 1964.

Changes in the farm economy of the South have jeopardized income from many of the traditional sources. The expanding livestock industry is taking up that slack in the farm economy and adding new strength to agricultural prospects for the future. And, the poultry industry continues to grow, as well.

The Agri-Business Services Department of Central of Georgia and Southern engages in a broad range of activities that are farm-oriented. Movements of crops to markets by rail are being encouraged with new services and equipment. The farmers' needs for low-cost movement of fertilizers, farm machinery and other products have been effectively dealt with to produce traffic increases. There are substantial prospects for additional future traffic to be carried by Central and Southern.

MARKETING AND RESEARCH

Throughout 1965 your Company's Marketing and Research Department continued its search for and development of new business opportunities and worked to improve our competitive posture on existing business through market research, innovations in rate-making, equipment and services. Making use of the increased computer capability now available at the Southern Railway System Control and Coordination Center in Atlanta, which is shared with Central, comprehensive studies of routes and traffic patterns, equipment utilization and requirements,

regional economic trends, traffic mixtures, and revenue and profit contributions of different commodities and services were begun and are continuing.

Clays of the kaolin type are one of the most important revenue producers for Central of Georgia. This traffic has been held almost exclusively to rail handling, and a study of this market led to the development of a new and lower rate scale for movements up to approximately 300 miles, which became effective in May and which has been productive of increased revenue.

MANAGEMENT CHANGES

Wilmer F. Leach was appointed Vice President-Sales, effective November 10, 1965, with headquarters in Washington, D. C., succeeding the late Warner R. Wilson.

Mr. Leach, a native of Georgia and a graduate of Georgia School of Technology, entered railroad service in 1929 with the Central where he has held various positions. Prior to his recent appointment he was General Freight Traffic Manager of Central.

STOCKHOLDER LITIGATION

On September 29, 1965, the United States District Court for the District of Columbia dismissed without prejudice, on the ground that that Court is not the appropriate forum for such litigation, the complaint, brought by two minority stockholders against your Company and your Board of Directors seeking to compel the declaration and payment of dividends on Preferred stock for the years 1960 to date, and for future years. An appeal has been noted by the two stockholders. Counsel continues to advise that the dividend policy has been and is consistent with the law and business realities, including the necessity for the expenditures of large sums for deferred maintenance and the upgrading of the physical properties and equipment, and that the suit is without merit.

Warner R. Wilson (1908-1965)—It is with deep sorrow that the Board of Directors records the death on November 7, 1965, of Warner R. Wilson, Vice President-Sales for Central of Georgia Railway Company since August, 1963.

For twenty years Mr. Wilson had served Central of Georgia and Savannah & Atlanta Railway with skill and devotion in various capacities in the Sales Department. He was an outstanding sales executive with a rare talent for bringing together shippers and the railroads he represented in a productive meeting of the minds.

CENTRAL OF GEORGIA RAILWAY COMPANY

COMPARATIVE STATEMENT OF INCOME AND RETAINED INCOME

	Year 1965	1964
Railway operating revenues:		
Freight	$44,462,388	$41,638,904
Passenger	1,242,500	1,211,081
Mail	850,063	845,382
Express	306,415	406,050
Other	1,009,670	920,426
Total	47,871,036	45,021,843
Railway operating expenses:		
Maintenance of way and structures	12,393,071	11,074,978
Maintenance of equipment	9,612,342	10,684,111
Traffic	1,773,176	1,979,995
Transportation	18,257,495	17,276,885
Other	3,446,066	4,767,450
Total	45,482,150	45,783,419
Federal income taxes—note 1	(2,113,500)	(3,712,000)
Taxes other than federal income	2,950,815	3,044,963
Equipment and joint facility rent expense	1,804,170	647,027
	48,123,635	45,763,409
Net railway operating (loss)	(252,599)	(741,566)
Other income:		
Dividends from affiliates—note 2	1,535,150	1,949,825
Interest	140,141	98,081
Miscellaneous	382,003	786,768
	1,804,695	2,093,108
Miscellaneous deductions from income	31,621	43,939
	1,773,074	2,049,169
Interest and other fixed charges	1,629,462	1,531,025
Contingent interest	559,492	564,310
NET (LOSS) FOR YEAR—note 3	(415,880)	(46,166)
Retained income beginning of year	18,824,619	18,410,411
Add (deduct)—Adjustment of preceding year's federal income taxes—note 1	(668,344)	460,374
Retained income end of year	$17,740,395	$18,824,619

CENTRAL OF GEORGIA RAILWAY COMPANY

COMPARATIVE BALANCE SHEET

ASSETS	December 31 1965	1964
Current assets:		
Cash	$ 1,716,878	$ 2,731,342
Marketable securities (at cost)	1,528	1,990,037
Accounts and other receivables	5,692,644	5,539,976
Materials and supplies (at average cost)	458,527	757,688
Other current assets	125,537	208,881
	7,995,114	11,227,924
Capital and other funds—note 4	5,906,553	1,024,865
Investment in affiliates—note 2	14,516,687	13,913,756
Road, structures and equipment net of accumulated depreciation—note 5	102,650,725	99,286,430
Other assets	1,527,149	1,154,806
Total assets	$132,596,228	$126,607,781

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accounts payable	$ 5,271,575	$ 3,344,733
Accrued expenses and other liabilities	3,520,626	3,377,743
Current liabilities excluding current portion of long-term debt	8,792,201	6,722,476
Long-term debt—note 9:		
Due within one year	3,456,082	3,095,820
Due after one year	46,377,791	43,092,315
Amounts payable to affiliated companies	4,434,500	2,934,500
Other liabilities	1,022,697	1,165,289
	64,083,271	57,010,400
Shareholders' equity:		
5% preferred stock, $100 par value—230,000 shares authorized, 170,394 outstanding	17,039,400	17,039,400
Common stock, no par value—500,000 shares authorized; outstanding 1965—337,240 shares; 1964—337,242 shares	33,724,000	33,724,200
Capital surplus	9,162	9,162
Retained income	17,740,395	18,824,619
	68,512,957	69,597,381
Total liabilities and shareholders' equity	$132,596,228	$126,607,781

NOTES TO FINANCIAL STATEMENTS

1. The Company is a party to an agreement between Southern Railway Company and certain of its affiliated companies in connection with filing consolidated federal income tax returns. This agreement provides, among other things, that the Company will contribute to the consolidated group the tax it would otherwise pay on a separate return basis after elimination of dividends among parties to this agreement. Should the Company contribute a loss to the consolidated return, it shall be paid an amount for the use of its loss equal to the reduction in the consolidated tax liability resulting from utilization of said loss. For the year 1965, the estimated benefit to the Company taken into consideration in computing net income under this agreement is $2,113,500. The comparable amount for 1964 was $3,712,000. As a result of the restriction on use of the investment credit, the 1964 benefit was reduced by $668,344. This amount was charged directly to retained income during 1965.

   In accordance with Company policy and accounting procedures prescribed by the Interstate Commerce Commission, no accrual has been made for taxes which may be paid in later years resulting from use of different depreciation methods or rates for tax purposes from those used to compute net income. The use of accelerated depreciation methods and shorter lives in computing depreciation for tax purposes has had the effect of increasing the amounts to be received for the use of the Company's tax loss by $767,000 for 1965 and $702,000 for 1964. The cumulative amount of tax benefit to the Company from these practices aggregates $11,343,000 to December 31, 1965.

   At December 31, 1965, the Company had available unused net operating loss carryovers of $2,144,000 which can be used to reduce future taxable earnings of the Company. There was also $1,100,000 of unused investment credit available at the year end, which can be used to reduce future federal income taxes of the Company.

2. At December 31, 1965, the Company's equity in its subsidiary companies exceeded its investment in these companies. Its equity in the earnings of these subsidiary companies amounted to $1,310,000 and $1,100,000 for 1965 and 1964, respectively.

3. In accordance with accounting procedures prescribed by the Interstate Commerce Commission, retirements of road property no longer required in operations are charged to railway operating expenses net of estimated salvage. These expenses have been included in computing the net loss for the year. Under the formula for the computation of income available for payment of contingent interest these retirements are not treated as an expense. Thus there is adequate available net income for the payment of contingent interest.

4. Capital and other funds include approximately $5,551,000 and $847,000 at December 31, 1965 and 1964, respectively, of unexpended proceeds from conditional sales agreements held by agents to be disbursed upon delivery of equipment.

5. At December 31, road, structures and equipment consists of the following:

	1965	1964
Road	$ 70,309,573	$ 67,361,261
Equipment	77,748,349	79,144,650
Other property	1,804,801	1,770,729
	149,862,723	148,276,640
Accumulated depreciation	47,211,998	48,990,210
Net properties	$102,650,725	$ 99,286,430

Depreciation expense was $3,307,000 and $3,256,000 for 1965 and 1964, respectively.

Accounting procedures prescribed by the Interstate Commerce Commission do not provide for depreciation on track structures. In lieu of this, current costs of renewals and maintenance are charged to expense. Expense of renewal and maintenance of track structure amounted to $7,055,000 for 1965 and $5,421,000 for 1964.

6. Preferred stock dividends are cumulative for a period of three years. At December 31, 1965, three years have accumulated and such unpaid dividends amount to $2,555,910.

7. The Order of the Interstate Commerce Commission allowing acquisition of controlling interest in the Company by Southern Railway Company provides for protection to employees dismissed or displaced as a direct result of this acquisition, unless through some action or inaction of his own the employee forfeits his right thereto. This protection is in the form of payments equivalent to the affected individual's average wages for a period prior to this transaction. Any amounts earned by the affected employee enter into the computation of amounts payable by the Company. The Company has made final lump-sum settlements with some of the employees covered by the protection provisions of the Order; $1,075,000 in 1965 and $2,100,000 in 1964 were charged to expense as a result of these employee protection provisions.

   The Company's interpretation of the employee protection provisions of the ICC Order has been challenged. As a result, during 1964, the ICC was directed by the Supreme Court to clarify these provisions. The ICC has not yet held further hearings or issued further orders with respect to this matter. Consequently, it is not possible at this time to make a reasonable estimate of the future liability of the Company, if any, for dismissal or displacement payments.

8. At December 31, 1965, the Company was contingently liable, separately or jointly with others, on indebtedness of or assumed by the affiliated companies in the approximate amount of $913,000, compared with $2,390,000 at December 31, 1964.
   The Company, together with other major railroads, has agreed to advance funds to meet principal and interest payments on certain equipment obligations of Trailer Train Company, but only in the unlikely event that charges for the use of this equipment are insufficient to meet these payments. The Company is a participant, together with other railroads, in a service interruption policy requiring payment of limited additional premiums if claims are filed by other participants.
   The Company was served with a summons and complaint in a suit seeking to compel the declaration and payment of dividends on preferred stock for 1960 and subsequent years. In the opinion of counsel for the Company, the suit is without merit.

9. Long-term debt of the Company at December 31, 1965, was as follows:

	Due Within One Year	Due After One Year	Total
Bonds:			
First Mortgage Series A—4%— due January 1, 1995	$ 59,267	$10,519,134	$10,578,401
General Mortgage (Income) Series B—4½%— due January 1, 2020	55,412	12,350,188	12,405,600
	114,679	22,869,322	22,984,001
Equipment obligations—payable serially:			
Equipment trusts maturing to 1972	1,381,937	4,020,217	5,402,154
Conditional sale agreements maturing to 1980	1,834,846	18,894,246	20,729,092
Note payable—maturing in 1971	124,620	594,006	718,626
Total equipment	3,341,403	23,508,469	26,849,872
Grand total	$3,456,082	$46,377,791	$49,833,873

HASKINS & SELLS
CERTIFIED PUBLIC ACCOUNTANTS

TWO BROADWAY
NEW YORK 10004

To the Stockholders,
Central of Georgia Railway Company:

We have examined the balance sheet of CENTRAL OF GEORGIA RAILWAY COMPANY as of December 31, 1965, and the related statement of income and retained income for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The Company maintains its accounts in conformity with the Uniform System of Accounts for Railroad Companies prescribed by the Interstate Commerce Commission and the accompanying financial statements have been prepared in accordance therewith. The provisions of the Uniform System of Accounts vary from generally accepted accounting principles in that no accounting recognition is given to the possible effect on income taxes in future years of current benefits, referred to in Note 1 to the financial statements, resulting from the deductions (net) for amortization and depreciation of property for income tax purposes in excess of the deductions recorded in the accounts.

In our opinion, subject to the ultimate liability for dismissal or displacement payments referred to in Note 7 to the financial statements and except for the matter referred to in the preceding paragraph, the accompanying balance sheet and the statement of income and retained income present fairly the financial position of the Company at December 31, 1965, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

HASKINS & SELLS

March 8, 1966

Geographically Correct Map of the

SOUTHERN RAILWAY SYSTEM

1966

SOUTHERN RAILWAY COMPANY

CENTRAL OF GEORGIA RAILWAY CO. • THE CINCINNATI, NEW ORLEANS AND TEXAS PACIFIC RAILWAY CO.
THE ALABAMA GREAT SOUTHERN RAILROAD CO. • NEW ORLEANS AND NORTHEASTERN RAILROAD CO.
GEORGIA SOUTHERN AND FLORIDA RAILWAY CO. • CAROLINA AND NORTHWESTERN RAILWAY CO. • GEORGIA & FLORIDA RAILWAY CO.
(And Affiliated Companies)

SOUTHERN RAILWAY SYSTEM LINES exclusive of the separately-operated
CENTRAL OF GEORGIA and affiliates, and
GEORGIA & FLORIDA

Trackage rights

SOUTHERN RAILWAY — SERVES THE SOUTH

LOOK AHEAD-LOOK SOUTH

Southern Railway Company owns and leases to other companies the trackage between Orange, Va., and Gordonsville, Va., 9.04 miles and between Ware Shoals, S. C. and Shoals Junction, S. C., 5.17 miles. Central of Georgia Railway Company owns and leases to other companies the trackage between Lyons, Ga. and Meldrim, Ga., 57.48 miles.

Scale of Statute Miles
0 25 50 75 100

Copyright by Rand McNally & Company. Made in U.S.A.

INDEX TO STATIONS ON THE SOUTHERN RAILWAY SYSTEM

The location of a station is near the intersection of lines drawn from the letter and figure in the map border corresponding with those in the index

Key to numeral in parenthesis preceding station name.
Where no numeral precedes station name, station is served by Southern only.

(1) Served by Central of Georgia
(2) Served by Southern and Central
(3) Served by Georgia & Florida
(4) Served by Southern and Georgia & Florida
(5) Served by Central and Georgia & Florida
(6) Served by Southern, Central, and Georgia & Florida

City names shown in red indicate location of Rail-Highway terminals.

A

Adams Park, Ga.... O15
Addy, N.C.... O15
Ades, S.C.... G15
Aiken, S.C.... J15
Airport, Ia.... S 8
Akron, Ala.... J10
Alabama City, Ala.... M12
(2) Albany, Ga.... P14
Albemarle, N.C.... J18
Albert, Ill.... F 7
Alberts, Ala.... F11
Albion, Ill.... F 8
Alcos, Tenn.... J14
Alder, Ala.... M12
(1) Alexander City, Ala.... L12
Alexandria, Va.... O20
Allendale, S.C.... N17
Almond, N.C.... J17
Alpha, Tenn.... J14
Alpine, Ala.... M12
Alspaugh, N.C.... M18
Alston, S.C.... L17
Altavista, Va.... G18
Amelia, Va.... J19
(1) Anacoco, La.... P14
Anchor, Ala.... M12
Anderson, S.C.... K14
Andrews, S.C.... G20
Anniston, Ala.... N12
(1) Apalachee, Ga.... N15
Appalachia, Va.... H15
Appliance Park, Ky.... F12
Arabi, Ga.... P15
Arcadia, Fla.... C17
(1) Ardenia, Ga.... N17
Arlington, Ala.... P11
Arlington, Ga.... F14
Arnoldsville, Ga.... M15
Arnoldsville, Ga.... M15
Arnoldsville, Ga.... M15